business topics

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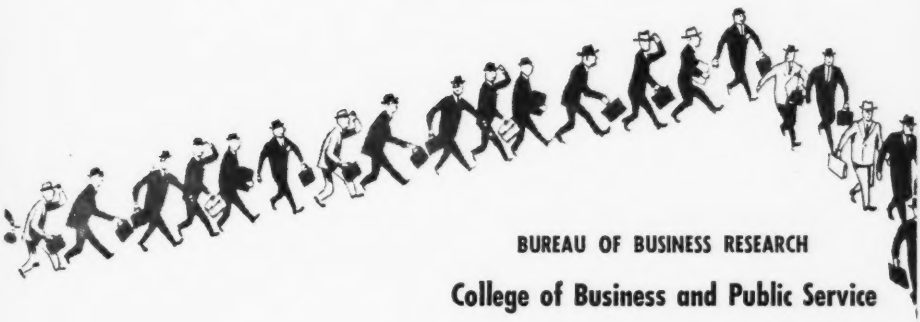

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A Career in Packaging

For students of MSU's newest curriculum, Packaging Technology, their future career is in the bag, as you might say. These young graduates in a growing field are in such demand that their job offers before graduation are five times as many as they can accept.

One reason is that this is the only such curriculum in the world: not even Canada, whose chief industry is forest products, has one. Other institutions offer individual courses but no packaged curriculum in packaging. The consequence is not only that the graduates have a wide choice of opportunities, but that the enrollment is growing at the rate of almost 400% a year. Starting three years ago with one student, Packaging Technology now has seventy-one majors.

The course of study includes general basic courses, a wide study of the Business, Chemistry and Forest Products fields, and seven special courses in packaging subjects. These are supplemented with upper-level work in such areas as marketing, management and food preservation.

The Industrial Advisory Board, a voluntary body serving the University, is made up of men in the packaging industry. Their suggestions have helped establish and improve the course. Interest in the University's latest venture into educational needs is evinced by gifts of $17,000 worth of technical equipment received by the Packaging Laboratory in the last two months.

At present the greatest need is in-plant summer training opportunities for the students, to fulfill a 16-week experience requirement. The establishment of research fellowships is also much desired, to encourage students to remain for graduate study.

business topics

Vol. 3 March, 1956 No. 5

"Let your discourse with men of business be short and comprehensive."

(George Washington's *Copybook*).

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ORGANIZED INDUSTRIAL DISTRICTS

*By ARTHUR E. WARNER**

Is Michigan keeping up with a significant trend in industrial development? This article points out our lag in this important respect.

Anyone who lives in an industrial city must sometimes observe with little pride the scattering of its industries. Here and there he sees a major plant laid out in neat, apple-pie fashion and surrounded by landscaping — a real asset to community appearance. Sometimes small plants too are attractive. But these are the rarer sights of our industrial scene. Predominant are the hodge podges of plants, all shapes and sizes, that like Topsy just "growed" wherever they might.

The drawbacks of such disordered locations of plants and warehouses are not merely aesthetic. Very practical difficulties arise for these plants with respect to accessibility to workers, trucks or railroads, in site costs, lack of utilities and services, remoteness from related industries, and in other ways. Real estate values generally are depressed, and what should have blossomed as a good residential or commercial area may be permanently blighted.

The Organized District

In recent years a superior concept in planning for industry location has been flourishing in many places, the "organized industrial district." The U.S. Department of Commerce has published an excellent report on this subject which defines such a district as "a tract of land which is subdivided and developed according to a comprehensive plan for the use of a community of industries, with streets, rail lead tracks and utilities installed before sites are sold to prospective occupants."[1] Land within the district may be leased or sold to businesses, more commonly the latter.

Ordinarily a firm wishing to build a plant must search for some available property zoned for its type of industry and then install all the utilities, get rail and highway connections and other requirements. A very big plant always must do this. Where an organized industrial district exists, however, smaller plants merely build on a plot within the district and find all these things already provided. There are industrial properties that are in varying degree thus prepared for plants to be built, but an increasing number are completely ready in the fullest sense of an organized district.

As an example of a large organized industrial district, consider the Central Manufacturing District in Chicago. One of the first such districts, it was organized in 1905 with an original tract of 260 acres. Today it comprises over 850 acres containing the plants of some 300 companies. It is

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[1]*Organized Industrial Districts*, by T. K. Pasma, U. S. Department of Commerce, 1954. For sale by Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.

operated by a common law trust, and its trustees have broad powers over the disposition of the land in the District and the types of industries located in it. This privately owned district not only has its own heat, light and sprinkler protection services, but also a bank, club facilities, its own freight station, and a modern public warehouse. The District also may finance the land and buildings of companies locating in it.

Most of the districts are initiated by a railroad, by a community group or by real estate firms. The big Trinity districts in Dallas, of which a birdseye view appears here, was the joint effort of three railroads seeking to develop on-line industries. Covering 1,200 acres, like the Central district it is thoroughly planned and closely restricted as to types of industries and buildings permitted. The smaller Airlawn District in Dallas was founded through the joint efforts of the property owner, an industrial realtor, and a railroad that lacked its own land for industrial development. A greater number are started as private realty or civic ventures. The Department of Commerce study previously mentioned states that while most districts are rigorously planned, about half lack the services and facilities found in an area like Central or Trinity. Usually they are smaller, too, of from 70 to 250 acres.

Your City's Economic Base

Let us pause and consider a fundamental question, "Why do we have cities at all?" In answering this question we may find some foundation for

Trinity District, Organized Industrial Area of Dallas

attacking the problem of establishing industrial districts.

To begin with, cities are a product of civilization and have grown in response to the desires of man to protect himself and his property, to satisfy his cultural and religious appetites, and to elevate and maintain his standard of living.

In order to satisfy these desires, certain things must be possible. First, there must be an agricultural surplus in order to free some members of society to collect together in cities and to specialize in nonagricultural activities. Next, there must be transportation and communication available to permit interchange of things and ideas between the city and the rural dwellers. As knowledge increases and is interchanged, thereby a higher level of all kinds of activity is possible, and as more food and fibre can be produced by fewer people, additional persons are freed to join the ranks of city dwellers. Meanwhile advances in knowledge make possible more specialization of effort in nonagricultural products and services. So the persons freed from agricultural pursuits are needed in the cities.

Such rationalization broadly describes civilization's advance, but shows nothing with respect to individual persons or individual cities. What happens to each city is of special interest here. How can one city expand while another is declining? What differences are there among cities that cause some to attract and others to repel new citizens?

To the thoughtful person an answer is readily apparent. People will be attracted to any city when the opportunities to gain a livelihood are better than in other cities. In our modern society this ability to provide opportunities for employment to prospective inhabitants is referred to as the "economic base" of the city. The economic base is associated with advantages which stem from factors such as location with respect to raw materials, markets, transportation media; proximity to power and water; favorable climatic conditions and a host of factors of a special nature.

The economic base may stem from military reasons, as in the thriving community of Los Alamos, New Mexico based solely on the atomic energy installation there. The economic base likewise might stem from other activities that are governmental, recreational, extractive, commercial or industrial.

Of all the activities with economic significance, industrial pursuits usually provide employment and income to more people than do any of the other activities. Although some cities have thriven with little industrial activity, they have been the exception. Today few cities can hope to experience significant future growth *without* some industrial basis. Hence, our concern with industrial districts and their contribution to city growth.

What Industry Needs

The foregoing suggests that a city is a complex of activities which are mixed together somehow into a pattern of land uses. A city must provide space for residences, recreation, culture, religion in addition to its economic base. One very important measure of the efficiency of a city in providing for all these demands is lack of friction between these users of the city's space.

Land is reserved for streets and alleys, parks and playgrounds and for residential, religious and commercial

use. In some cities land is set aside for industrial uses too, but more often industrial uses are left to scramble catch-as-catch-can for land that is not desired for other purposes.[2] Industrial uses, indeed, have long held a bad reputation in most cities of running down the area in which they are located, giving off obnoxious odors, noise, causing congestion, and rearing ugly structures. And so industrial activities have been treated as wholly unwanted step-children in many cases. The important needs of industry consequently have been ignored in allocating space.

The organized industrial district certainly is one excellent answer to the city that is objectively thinking about its problems of maintaining a dynamic economic base. As noted above, many cities have industry alone as the base to support a growing population.

Cities that wish to grow with the nation must do more than provide mere space for industry. It is absolutely vital that such space be of a type and area that will offer industry maximum efficiency. Today's technology demands areas adequate for single-story factories with parking lots, recreation areas, rest and health rooms, hospitals, locker rooms, classrooms, etc.

In addition to needing greater land area, industries require that *location* be in areas that permit greatest ease of carrying out the specific manufacturing process, or conversely, in areas with the least possible friction with all other city land users. Such needs include access to transportation (rail, truck and, increasingly, air); adequate water supply and sewage disposal; adequate and reasonable pollution controls; room for expansion; and assurance that other uses will not be permitted to encroach into their areas.

Industrial requirements for space indicate that development of organized industrial districts is an excellent way to provide these needs. But it is not enough simply to organize a district. The district must be created in the proper location with respect to all other city land uses and at the same time meet all of the requirements of industry. Simultaneous solution of these two complex equations is the real challenge.

Industrial Districts in Michigan

Casting about the country, one finds hundreds of organized districts, especially in the Southwest — but elsewhere too. Iowa has at least nine, and the city of Columbia, South Carolina alone has four districts. In Michigan, however, just a few.

A large area was organized as the non-profit, Industrial Development Corporation of the Port Huron - Marysville Area, within the limits of those cities, three years ago. It has a sizable tract of 187 acres, with all utilities and transportation connections. More about this civic project will be told in *Business Topics*' next issue, in an article featuring Port Huron. Its second industry recently announced construction plans.

At Coldwater you will find another district also in the city limits, a 1952 civic venture. Half of 23 acres are now occupied, by a metals manufacturer and a chain warehouse. It too has all utilities, although no restrictions except zoning.

[2]See Dorothy A. Muncy's article, "Land for Industry—A Neglected Problem" in the *Harvard Business Review*, March-April, 1954, for a discussion of this problem.

These comprise the sum total of Michigan's organized industrial districts. Two others are in formative stages, but nothing definite can be reported on them yet.

Why Not in Michigan?

We are proud of our state's economic leadership and should be. Why, then, has Michigan lagged behind all the major states in providing these industrial needs in organized districts?

One cannot be sure, but the following factors *seem* to be responsible:

1. Satisfactory industrial growth in the southern part of the state has made for contentment. Most of the towns in which industry would want to locate have not hungered for industry sufficiently to invest in the land and facilities required for organized industrial districts.
2. Many of the industries that characterize Michigan are not of the compact type that can use the ready-made site in organized districts. Others require that raw materials be adjacent or have water supply, waste disposal or water transport problems that cannot be satisfied in such tracts. On the other hand, Michigan has not yet been an outstanding location for branch warehouses and plants, which are indeed ideal for the organized industrial district.
3. Communities that lack the basic requirements for industry would err seriously if they invested in creating such districts, with little prospects of landing industry. Some places that long for industries unfortunately fall in this class.
4. A district cannot be organized without having available a considerable area of contiguous land. In our sprawl of homes, commerce and industry, such sites around a northern city frequently are as rare as the proverbial hen's teeth.

And yet there *are* economic needs for these districts if Michigan's economic progress is to continue. The social and aesthetic enhancement of our cities provide other good reasons for giving the most serious consideration to fostering dozens of organized industrial districts in the state.

We would not, certainly, gloss over the negative aspects to be considered. The community must be prepared for industrial expansion in other regards, besides appropriate land and its accessories. Finding the money and the appropriate people or community organization to carry out the development are huge tasks. And finally, the need for competent and persevering promotion for months or years until industry begins to settle plants, laboratories or warehouses in the prepared area must not be overlooked.

A Message from Dan Gerber

There is a real need for immediate study and determined effort along this line which could pay off handsomely in contributing to the future economic base of many Michigan cities. Among the leading contributors to the state's industrial program is Michigan's famed baby foods producer, Dan F. Gerber. As chairman of the Michigan Department of Economic Development, he is well informed concerning its industrial needs.

Business Topics asked Mr. Gerber about organized industrial districts.

He graciously gave this reply for publication:

"We find that in many communities where no thought whatever has been given to the development of industrial sites, but they have just gone along on a hit or miss basis; usually the good sites for a large industry are badly cut up so that the location of an industry presents some serious problems which a little forward-looking planning could have avoided.

"We find that where the community has given some serious thought to getting their sales talk for industry organized, they generally have been conscious of these problems but, unfortunately, you do find many communities where their effort has gone no further than a few impassioned speeches at luncheon clubs, telling of the need for industrial development of their community, and the roaring applause that follows.

"Where organized industrial districts have been developed, it has been our impression that they have done the best possible job in picking sites with good lode-bearing soil conditions and then either installing or making provisions for all of the necessary utilities and services that any prospect might need.

"In many cases, they have gone so far as to build buildings of standard construction that are available to lease to smaller manufacturers who may have ample operating funds but would find it hard to finance a new building on their own.

"It seems to me that today any concern seeking a new plant location or a location for a branch plant will expect the industrial department of the chamber of commerce at the points which they consider either to have some sites available or be able to offer space in an organized industrial district. I think a prospect doesn't think much of a town or its desire to bring in industry if he doesn't find something along this line."

LA PRENSA REDIVIVA

Business Topics quisiera congratular al pueblo Argentino, y al Sr. Dr. Alberto Gainzo Paz. *La Prensa,* uno de los jornales mas estimados del mundo libre, comienza de nuevo su publicación despues de cinco años de haber sido suprimida.

SECTION 306 STOCK—A NEW CONCEPT

*By ADOLPH E. GRUNEWALD**

Income taxes on the distribution of closed corporations' accumulated earnings have been arrived at by the "bail out" technique. The new tax amendment correcting this loophole is explained here.

Prior to the passage of the 1954 Internal Revenue Code, it was possible for stockholders of a close corporation to withdraw accumulated corporate earnings at capital gains rates rather than rates applicable to ordinary income. This procedure, which has come to be known as the preferred stock bail out loophole, was made possible partly as a result of the judicial and legislative history regarding the treatment for federal income tax purposes of dividends paid in the stock of the issuing company.

In order to meet the preferred stock bail out problem, a new concept of stock — Section 306 stock — came into existence with the passage of the 1954 Code. The introduction of Section 306 stock in the 1954 Code represents, "with certain technical amendments," the Senate's considered solution to the preferred stock bail out procedure[1] — a loophole the Internal Revenue Service has been anxious to plug for a number of years.

The "Bail Out" Method

The typical situation calling for application of the preferred stock bail out procedure was comprised of a majority group of shareholders of a close corporation which was confronted with the potentiality of being subjected to a surtax upon the undistributed net income which had been accumulated beyond the "reasonable needs of the business"[2] and who were anxious to convert a large corporate earned surplus consisting primarily of cash and securities into personal income but subject to tax rates applicable to capital gains. The process for siphoning off these accumulated corporate earnings in such a manner as to be taxable at capital gains rates in the hands of the distributee shareholder consisted of three steps: (a) the issuance of a dividend payable in preferred stock to the common stockholders (nontaxable if only one class of stock outstanding at the time of the

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[1]Report of the Committee on Finance, United States Senate, to accompany H. R. 8300, Report No. 1622, 83d Congress, 2nd Session, p. 241. Conference Committee Report, H. Report No. 2543, 83d Congress, 2nd Session, p. 35. The House solution to the preferred stock bail out procedure was to impose upon the issuing corporation a transfer tax of 85% upon the corporation's redemption of its "non-participating stock" if the redemption were effected within ten years of the date of issue. The transfer tax, however, would not have been applicable to the extent that the redemption price did not exceed 105% of the fair market value of the property or securities for which the stock was originally issued. Report of the Committee on Ways and Means, House of Representatives, to accompany H. R. 8300, Report No. 1337, 83rd Congress, 2nd Session, pp. 36, 91ff.

[2]Section 102, 1939 Code. This section is continued in the 1954 Code. See section 531.

preferred stock dividend); (b) the sale by the common stockholder of the newly issued preferred (after a decent interval) to a third party at approximately the call price with a promise to the purchaser that the preferred stock would be redeemed by the corporation within a relatively short period of time; and, (c) redemption of the preferred stock out of accumulated and current earnings. Most of the problems of the shareholders were thus solved. Through the sale of the preferred stock to a third party the shareholders received income taxable at rates applicable to capital gains, and after redemption of the preferred by the issuing company the common shareholders were restored to their original position.

The net result was approximately as though the common shareholders had received the accumulated corporate earnings directly in the form of an ordinary cash dividend, but subject to tax rates applicable to capital gains instead of indirectly through the issuance, subsequent sale and final redemption of the preferred stock.

The Problem

Prior to the passage of the 1954 Code, the taxability of dividends paid by a corporation in its own stock to its shareholders was something less than easily determinable.

The genesis of all our income tax problems, past, present and future, lies of course in the ratification on February 25, 1913, of the Sixteenth Amendment which authorized the federal government to collect taxes on incomes, "from whatever source derived, without apportionment among the several states, and without regard to census or enumeration."

The first Internal Revenue Act of 1913 made no provision for the inclusion in income of stock dividends. As a result of the failure of the 1913 Act to deal with this point the court in *Towne v. Eisner*[3] held that under the 1913 Act a tax on a dividend payable in stock was invalid.

In 1916 the Internal Revenue Act was amended to provide for the taxation of stock dividends. Yet, despite the provision contained in the 1916 Act providing for the taxation of stock dividends, the Supreme Court in *Eisner v. Macomber*[4] held in a five-four decision that a dividend payable in common stock with respect to common stock was not income within the meaning of the Sixteenth Amendment. Following the decision in the *Macomber* case the 1921 Act was amended to exclude from taxable income all dividends paid in stock of the issuing corporation with respect to its own stock.[5] All the Acts subsequent to the 1921 Act until 1936 continued provisions excluding from taxable income dividends paid in stock.

In 1936 the Internal Revenue Act was again amended to include, in taxable income, dividends paid in stock to the extent that the stock dividends constituted income under the Sixteenth Amendment.[6] The amendment to the 1936 Act followed the decision in *Koshland v. Helvering*[7] wherein the

[3]245 U.S. 418 (1918).

[4]252 U.S. 189 (1920).

[5]For the treasury's view, see T.D. 3052, CB Dec. 1920, p. 38.

[6]I.R.C., Sec. 115(f) (1), "A distribution made by a corporation to its shareholders in its stock or in rights to acquire its stock shall not be treated as a dividend to the extent that it does not constitute income to the shareholder within the meaning of the Sixteenth Amendment to the Constitution." The same provision was carried forward in the 1939 Code.

[7]298 U.S. 441 (1936).

Supreme Court held that a dividend paid in common stock with respect to nonvoting cumulative preferred stock constituted income. In the words of the Court, "where a stock dividend gives a stockholder an interest different from that which his former stockholdings represented he receives income."[8]

Following the decision in the *Koshland* case and the aforementioned amendment to the 1936 Act which did not invalidate the taxation of all stock dividends, the Treasury sought to declare all dividends paid in stock subject to inclusion in taxable income by attempting to have *Eisner v. Macomber* overruled. The Court, however, refused to support this position by reaffirming the view that a dividend payable in common stock with respect to common stock did not constitute income, and therefore was not includable in taxable income.[9] Subsequently the Supreme Court did hold, however, that where both preferred and common stock were outstanding, a dividend payable in preferred stock with respect to common stock did constitute income under the Sixteenth Amendment.[10] However, it was not until the decision in *Strassburger v. Commission*[11] was rendered that the preferred stock bail out loophole procedure became the apparent solution to the problems of the close corporation shareholders desirous of siphoning off accumulated corporate earnings at rates applicable to income from capital gains.

The question to be decided in the *Strassburger* case was whether, where there was only one class of stock outstanding — common stock — a stock dividend paid in preferred with respect to the common constituted income within the meaning of the Sixteenth Amendment. The Supreme Court held that the receipt of the preferred stock by the common shareholders did not constitute income as the common shareholders proportionate interest in the corporation remained the same despite the payment of the dividend in preferred stock with respect to the common stock — the only class of stock outstanding at the time of the dividend.

This decision left the Internal Revenue Service in the unhappy position of seeing close corporation shareholders withdrawing corporate earnings, but subject to tax rates applicable to income obtained from capital gains, through the circuitous route of declaring preferred stock dividends, disposing of the preferred stock and finally causing the corporation to redeem the preferred. Following this procedure, there was of course no taxable distribution by the corporation to the shareholders and consequently no liability was incurred at tax rates applicable to ordinary income. The government, not willing to stand idly by, sought to limit or overthrow the *Strassburger* decision in *Chamberlin v. Commissioner*.[12] However, despite the fact that there was no difficulty in showing the existence of a plan to withdraw corporate earnings at capital gains rates, as prior to the issuance of the preferred stock dividend the promise of a third party to purchase the preferred was obtained, the government failed to prevail before the Circuit Court. And when the Supreme Court denied

[8] *Ibid.*

[9] Helvering v. Griffiths, 318 U.S. 371, affirming 129 F.2d 321 (2d Cir. 1942).

[10] Helvering v. Gowran, 302 U.S. 238 (1937); Helvering v. Pfeiffer, 302 U.S. 247 (1938).

[11] 318 U.S. 604, rev'g 124 F.2d 315 (2nd Cir. 1941).

[12] 207 F.2d 462 (6th Cir. 1953) reversing 18 T.C. 164 (1952).

certiorari[13] in the spring of 1954, the burden fell upon Congress to fill by means of legislation the preferred stock bailout loophole.

The Solution

The solution to the tax loophole in the preferred stock bailout area incorporated into the 1954 Code represents the Senate's approach[14] of taxing, at rates applicable to ordinary income, the proceeds in the hands of the original distributee shareholder derived from the sale of the stock, received as a stock dividend, to the extent that the stock dividend was not includable in taxable income[15] and to the extent that if a cash instead of a stock dividend had been paid, the cash dividend would have been taxable at rates applicable to ordinary income. The implementation of this approach required the creation of a new stock concept which has been designated Section 306 stock. Generally speaking, though it is possible for any class of stock issued by a corporation as a stock dividend to its shareholders to fall within the provisions of Section 306, (except "common issued with respect to common stock"), the stock most frequently to receive the designation of Section 306 stock will probably be preferred stock issued as a stock dividend with respect to common stock. However, not all preferred stock (or "stock other than common") issued as a stock dividend with respect to common will qualify as Section 306 stock. For the preferred to be so designated two conditions must be fulfilled. First, the preferred must be received by the shareholder as a nontaxable stock dividend;[16] second, there must be present current or accumulated corporate earnings attributable to the preferred.

Once shares received as a stock dividend qualify as Section 306 stock, serious consequences follow. If the shareholder disposes of the stock to a third party, the proceeds from the sale in the hands of the distributee shareholder are taxable at rates applicable to ordinary income to the extent of the share's ratable portion of the current and accumulated corporate earnings. It would be immaterial if immediately after the issuance of the stock dividend the corporation were to declare a cash dividend payable on the common stock to the extent of the earnings attributable to the shares issued as a stock dividend. The latter would remain Section 306 stock because of the presence of corporate earnings attributable to the shares at the time of issuance as a stock dividend. Should the distributee shareholder dispose of the shares received as a stock dividend (the Section 306 stock) for an amount

[13]347 U.S. 918 (1954).

[14]For the House answer to the preferred stock bail out procedure, see note 1 *supra*.

[15]Under the 1954 Code stock dividends are not includable in taxable income regardless of whether the stock dividend is in preferred or common or paid with respect to preferred or common and regardless of whether only common or both preferred and common are outstanding at the time of the dividend payable in stock is paid. I.R.C., Sec. 305 (a). There are two minor exceptions to this general rule (which represents a substantial change in the treatment of stock dividends as compared with the 1939 Code. See note 6 *supra*). The first exception pertains to the situation where dividends payable in stock are issued in payment of preferred dividends payable during the current or the immediately preceding year. The second exception is where the shareholder has the option of taking his dividends in stock or in cash. I.R.C., Sec. 305 (b).

[16]For a consideration of taxable and nontaxable stock dividends, see note 15 *supra*.

in excess of the shares' ratable portion of the current and accumulated corporate earnings, such excess would be taxable at rates applicable to capital gain.

An Example: The foregoing may be illustrated by the following example. If a common shareholder (the only shareholder in the company) were to receive 500 shares of preferred stock with a fair market value of $50,000 ($100 per share) as a stock dividend payable on his common stock at a time when the corporation had $50,000 of earnings, the preferred stock dividend would not be includable in taxable income. However, upon the sale of the preferred stock to a third party, the proceeds of the sale in the hands of the distributee shareholder would be taxable at rates applicable to ordinary income to the extent the proceeds of the sale did not exceed $50,000. If the Section 306 stock were disposed of for an amount in excess of $50,000, the excess would be taxable at rates applicable to capital gains. If, however, the subsequent sale of the Section 306 stock yields less than its fair market value at time of issuance, no loss is recognized. The declaration of a cash dividend payable with respect to the common stock of $50,000 after the issuance of the preferred stock dividend would not remove from the latter the taint of Section 306 as the corporation had $50,000 of accumulated and current earnings (the preferred's ratable share in the earnings) at the time of issuance. Under this set of circumstances, the only way the common shareholder can dispose of his Section 306 stock and avoid the ordinary income characteristics of this stock is to cause the issuing corporation to redeem the Section 306 stock.

The tax consequences of receiving proceeds from the disposition of Section 306 stock through redemption depend in part on the presence or absence of corporate earnings at the time the Section 306 stock is redeemed. If at the time of the redemption of the Section 306 stock there were no accumulated or current corporate earnings attributable to the Section 306 stock, the proceeds received would be treated as a return of capital under Section 301 — notwithstanding the fact that upon issuance there were present earnings attributable to the shares. However, should the Section 306 stock be redeemed at a time when the corporation possesses earnings which are attributable to it, the proceeds of the redemption in the hands of the original distributee shareholder would be taxable at rates applicable to ordinary income to the extent the proceeds of the redemption did not exceed the ratable share in the accumulated and current earnings of the Section 306 stock at the time of redemption. Any excess distributed upon redemption in the above situation would first be applied against the basis and the remainder would be taxable as gain from the sale of a capital asset.

Other Provisions

In addition to providing a means of closing the preferred stock bail out loophole, Section 306 also contains several provisions dealing with conversion privileges which may be written into potential Section 306 stock for the purpose of eliminating or minimizing its ordinary income characteristics. That is, these provisions are designed to prevent the minimization or elimination on the part of the shareholders of the tax consequences of receiving and disposing of Section 306 stock by

means of conversion privileges incorporated in or accompanying stock issued as a nontaxable stock dividend.

Subsection (c)[17] prevents the avoidance of the receipt of Section 306 stock with its ordinary income characteristics through the issuance of a stock dividend payable in common stock with respect to common stock (nontaxable—non-Section 306 stock) with the privilege of later converting it to stock other than common (say preferred), selling it to a third party (the proceeds being taxable at rates applicable to capital gains) and later calling the stock for redemption (the preferred stock bail out procedure with an added step — the issuance of convertible common rather than preferred). The possibility of such cases arising is forestalled by this provision which specifies that common stock issued with respect to common stock containing a conversion privilege or accompanied by a collateral agreement containing a conversion privilege shall not be treated as common stock, but as stock other than common. As stock "other than common issued with respect to common stock" may be classed as Section 306 stock this door appears effectively closed. On the other hand, if stock "other than common stock (is) issued with respect to common stock" but is privileged to convert into common stock, such stock, upon conversion, is removed from the Section 306 category.

Subsection (g)[18] is designed to prevent the minimization of the ordinary income characteristics of Section 306 stock by means of manipulating the terms of the stock other than common issued with respect to common. This provision is intended to preclude the adoption of this route of circumvention by providing that upon a change in the terms of Section 306 stock, its fair market value and ratable share in the corporate earnings shall be redetermined and the higher of the two valuations shall be binding.

[17]Of I.R.C., Section 306.

[18]*Ibid.*

CHEMICAL VALLEY: A TALE OF TWO CITIES

*By ANNE C. GARRISON**

Number 15 in this popular series takes us outside the state for a breathtaking view of a colossal neighbor.

The Jesuit fathers who accompanied the seventeenth century French explorers of the Great Lakes area were not writers of fancy prose. Yet at least two of them interrupt their factual accounts of the voyages by rapt praise of the beauty of the St. Clair River region. "The most beautiful river in the world!" says one; "there is nothing in Europe to equal it." Another calls it "the most gorgeous of all the countries of Canada." Two hundred years later James Fenimore Cooper, on a business trip to Michigan, echoes this praise, while remarking sourly that of course it wasn't really a *river* at all, and he did hate to hear Americans misusing words. Today we find in this same river, for all its changes, beauties unique in our experience. Added to the natural charms others have remarked are the special Technicolor beauties of the great silvery spheres and tanks, complexes of pipes, towers, silos, copper wires and industrial installations that crowd its shores.

Cross this river one hundred and fifty feet up, on the Blue Water Bridge. On one side is Lake Huron stretching North without a horizon, while on the other is the River itself, carrying more tonnage than any other in the world. Under the lyrical steel structure moves a greater amount of water-borne commerce than the combined coastwise and foreign commerce of the two ports of New York and Liverpool. Every five minutes, day and night, a freight vessel passes. And though the River is only open eight months of the year, it handles more tonnage in that period than do the Panama, Suez and Kiel Canals in twelve.

Ocean-going freighters from Northern Europe make up much of the throng. In addition, Canadian and American grain and ore boats and package freighters swell the amount. In May the colorful sailboat race from Port Huron to Mackinac Island lends romance to the crowded river, if not much tonnage. The world's greatest fresh-water sailing event, it includes some sixty handsome craft.

A Nation's Lifeblood

But you are not off that bridge yet. Almost under you is the site of the oldest fort on the upper lakes, older by several years than that at Detroit. Downstream a bit is one of the world's longest under-water tunnels, serving the Canadian National and Grand Trunk railroads. Plying across stream are passenger ferries and a new Chesapeake and Ohio freight car ferry.

Most important of all from the point of view of this article, there is under the river an artery that is vital to the safety and prosperity of all of Canada: the Interprovincial Pipe Line, through which flows oil from the fields of Manitoba, Alberta and Saskatchewan to Sarnia, and which is largely responsible for making this city the center of the British Commonwealth's

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petrochemical industry. This pipeline is the longest main transmission oil line in the world, reaching 1800 miles from Edmonton, Alberta.

All-American City

As for the American shore, Port Huron is enjoying its own particular fame, for it received in December an All-American award from the National Municipal League and *Look* Magazine for outstanding citizen teamwork in solving the pressing problems of its community needs.

What a river, and what a pair of cities! Yet they should not be considered as a pair, for they are vastly different in problems, accomplishments and potentialities. Given a common climate, geology and agricultural background, a common waterway to serve and separate them, a common language and a long history of peaceful relationships, they still diverge widely in their most important characteristics. Consequently I shall deal with them separately: with Sarnia as a young industrial giant, endowed with a giant's gifts and capacities and a giant's chores and growing pains; with Port Huron as a steadily-growing, self-aware community fortunate in a stable citizenry that faces its problems well before they become acute, and comes up with the right answers at the right time.

Improbable Sarnia

Not so many years ago it could be said of Sarnia that it saw more water traffic go by it than any other city in the world. Now it is one of the heaviest tonnage Canadian ports on the Lakes. It is still true that much of the traffic goes by, for it has to do with fully loaded vessels from higher up, but the implication that Sarnia is being passed up by the modern age is about as far from the truth as you can get.

How to introduce a story about

Night shot of Sarnia's industrial panorama reflected in the St. Clair River.

Sarnia? All the facts are so extraordinary that the very listing of them tends to blunt their improbability. Yet there is a comparison that tells much: Sarnia is to industry what Michigan State University is to higher education. Both have a hundred-year history of modest beginnings, unspectacular growth and then enormous expansion within the past fifteen years. Both seem to be symbols for the direction of growth of our complex cultures and economies. Both tax the imagination and take the breath away. And both, for all their restless expansion and dislocation of human serenity, have aspects of great and memorable beauty.

Back in 1939 when Michigan State College boasted (really boasted, I mean) a student enrollment of some 6,000, Sarnia was a typical small pleasant Canadian city with only two or three major industries. It had a history of lumber shipping which had dwindled away, and it had an oil industry. Nearby Oil Springs and Petrolia had been drilling oil wells for 90 years: in fact recent research has enabled the delighted residents of Lambton County to claim drillings in 1857, and to predate by several years the Pennsylvanian claim to the first wells in North America. However that may be, Sarnia's industrial status at the beginning of the second World War was a modest one. A feature in its prosperity was the Canadian government's tax on imported gasoline, 1c an Imperial gallon.

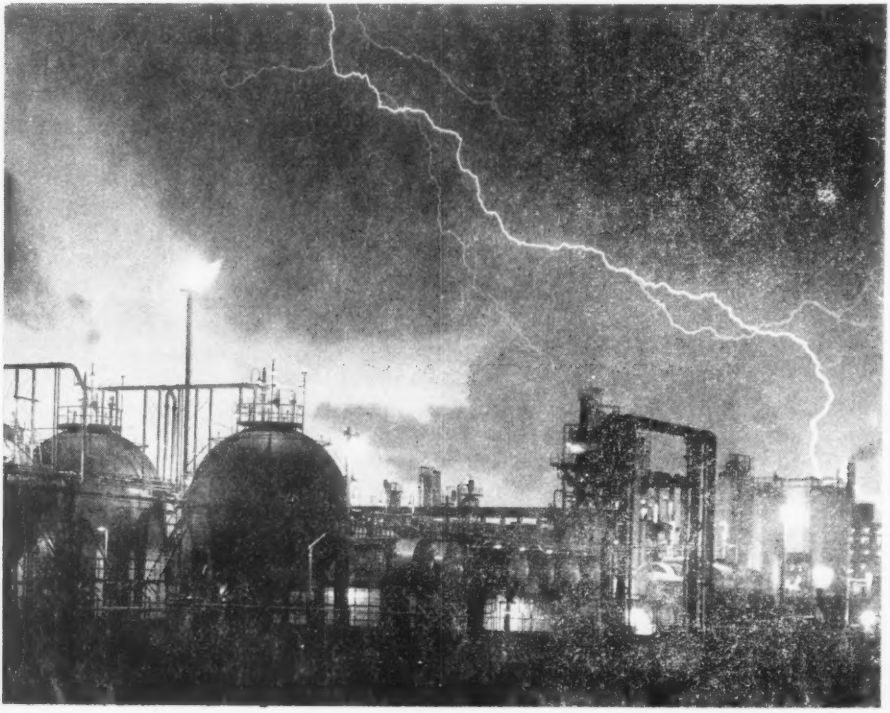
A Desperate Need. Then the Government, in desperate need of rubber after the fall of Malaya, chose it as a site for the establishment of the Polymer Corporation, on which the whole of Canada was to rely for its wartime supply of synthetic rubber. Sarnia was selected for several reasons: the country's largest oil refinery there would be an immediate source of raw material (feed stock is the technical term); other necessities like coal and benzene were available by cheap lake transport; the River, emptying out of the chilly depths of Lake Huron, is an inexhaustible supply of the cold water necessary in the manufacturing process, and the same salt beds of which so much of Michigan's chemical prosperity depends extend on the Canadian side for miles to the North and South of Sarnia.

The Polymer Corporation

Everyone who recalls the wartime rubber crisis can appreciate the immediacy of Canada's need and the full-scale effort that was put into Polymer. In a world that depends upon the wheeled vehicle and puts an average of 240 pounds of rubber into each one, there can be no question of the priority of such a project. Chemists had been working on the production of synthetic rubber since 1860 but research was tremendously stimulated by the crisis, and almost overnight the test-tube-and-thesis stage developed into industrial production. Accelerated research since 1945 has made available new types of rubber with tailor-made characteristics natural rubber cannot equal. In fact, there remains only one use for which the synthetic product is still inferior to the natural: that is in airplane tires, which have to withstand an enormously rapid buildup of heat upon landing. (It is the *rate* of build-up rather than the heat attained that is the factor here: synthetic rubber can actually withstand greater extremes of temperature than natural).

Steel Jungle. Its versatility makes synthetic rubber a welcome ingredient of many products where we are not likely to suspect its presence. Modern adhesives and coatings for textiles and paper may contain it, as may cable coatings, tiles, conveyor belts, paints and roofing. None of these products is made by Polymer. Polymer is exactly what its bewildering appearance conveys at first glance: it is a jungle; a steel jungle for producing the raw material, rubber. Instead of rows of trees with milky sap dripping into buckets, it has distillation units for the recovery of components of butadiene and styrene gases from the light hydrocarbons it receives from the neighboring petroleum plants. (Benzol, a hydrocarbon recovering during the coking process, is also received from the steel industry). Instead of underclothed and underpaid Asiatics collecting the sap and laboriously coagulating it over smoky fires, it has crews of Fibreglas-helmeted specialists who carry the hydrocarbons through the complex processes that result in polymerized rubbers. Both jungles play the same function of turning out rubber: the raw material, not the finished product. The essential difference is that raw natural rubber is simply that and nothing more, whereas chemical rubber when it leaves the plant in its neat drum or bag has built-in properties of oil resistance, air retention, elasticity, durability, or whatever else the buyer has specified. Some thirty types of rubber with thirty different combinations of qualities are produced by Polymer.

Canada's great synthetic rubber jungle. (Photo by Malak, Ottawa).



To call the plant a jungle is to betray the layman's confused awe at the complexity of the operation. The naïve mind (i.e. that of the writer) cannot really grasp how or why a huge silver sphere of petroleum gas can end up by producing an attractive block of creamy odorless rubber. (I distinguish here: there is also a green variety that smells simply fierce). Needless to say, the complexity is an entirely ordered one. This is the sort of jungle where PhD.s prowl, where every office-worker is skilled in fire-fighting and first aid, where a professional watchmaker roams the grounds in his full-time employment of servicing the mechanisms that time and control the various processes.

As the most spectacular component of Chemical Valley, Polymer stretches along the River over a 135-acre tract. It produces over 200 million pounds of rubber a year; 40% of this output suffices to fill all Canada's needs for chemical rubber, while the remainder is exported throughout the world. Of its 2,400 employees, almost a sixth have been with the firm throughout its short life. There was talk of closing the plant after the war, or of turning it over to private industry, but the development of an export market fortunately saved this model government-owned enterprise. Their investment of well over $75 million is paying back the Canadian taxpayers daily in terms of national security, superior rubber production, and the surety of an independent future supply. The corporation pays taxes, competes in the open market for its raw materials, and is controlled by a government-appointed Board of Directors.

Imperial Oil

This firm's history goes back to the days when the oil refiners looked upon gasoline as a pesky waste product. Today it is the country's largest refining unit, but in the beginning it grew from the small London firm set up by 16 oil operators and businessmen. The move to nearby Sarnia a few years later was prompted by the location next to water transport.

In those days refining was a hit-or-miss matter, and remained so until the market for gasoline caught up with the market for oil. By 1912 the demand for petroleum outran the supply from the local fields, and 154 miles of international pipeline was laid to Cygnet, Ohio. Its modest capacity would be dwarfed by the output of the 30-inch Interprovincial Pipeline, which delivers some 100,000 barrels of Western oil a day to Sarnia, and expects to handle much more in the future by looping (or doubling) part of the present line to permit increased throughput as required. Imperial Oil does not own the pipeline though it sponsored the firm and has a one-third interest in it. Imperial uses about three quarters of the crude delivered at Sarnia by Interprovincial.

All petroleum products except aviation gasoline are turned out by Imperial's Sarnia plant, which is the major link between Canada's biggest producing fields and its biggest consumer markets. Another pipeline to the East carries some of the firm's products to London, Hamilton and Toronto and to a point in eastern Ontario beyond which it is not economically justifiable to ship them, for they enter an area where they can be outpriced by products made from crude oil shipped from South America and the Near East to Montreal refineries.

The tremendous refinery employs over 2,000 workers, while the firm's 125 research and 150 engineering

personnel, based in Sarnia, serve a nation-wide organization. Some of the methods developed here have received world-wide acceptance: indeed the Imperial people regard their Sarnia plant as "the mother of refineries" for its dissemination of products, methods and trained personnel. The importance of research in the oil industry may be judged by the amount of money spent upon it: one third of the cost of every barrel of crude has gone into research and development.

The Sun Oil Company

"The fruition of an engineer's dream", the Sun Oil Company calls its Sarnia plant, which has been on stream since 1953. A model refinery, small, but as perfect as the engineers could make it, it is one of the most advanced in the world from the point of view of instrumentation, and is also one of the most efficient for its size. It was designed to work expeditiously as it is now, and to lend itself well to future expansion. The firm receives its crude oil by pipeline (still another pipeline) from Toledo, and ultimately from Texas and the Southwest. It pipes its finished products, mostly hightest gasoline, eastward, and has consequently been nicknamed "a bump on the pipeline".

Sun owes its presence in Sarnia partly to Polymer's postwar need for a large supplier of butane liquid. It is wholly-owned as a Canadian subsidiary of the American parent company, and has as distinctions among Sarnia's industries: high output per number employed (partly due to their practice of contracting for their maintenance), the youth of its 64 employees, only one of whom has reached the age of 40. But the most memorable point, to the observer, is the inclusion of a genuine Indian graveyard within its neatly-fenced property.

Dead Indians. The Chippewa Band — including some stray Potawatamis, Sacs and even a Sioux or two — are settled on a reserve just within the city limits along the River. (What other city can boast a reservation within its boundaries?) As Chemical Valley began to grow, the need for waterfront property became urgent, and the Chippewas were the beneficiaries of a fine seller's market. They have disposed of several parcels to different firms, but the portion Sun bought contained their cemetery, and the oil company is now burdened with the perpetual care of a graveyard with some thousand population. Such a chore does not usually fall within the sphere of the petrochemical industry.

As do several other firms, Sun provides storage space for light hydrocarbons by dissolving large chambers out of the underlying salt beds. Like Imperial, it also operates an extremely advanced system of water purification in which bacteria devour the phenols in the waste before the water is returned to the river.

Canadian Oil Companies

Chemical Valley's distinction is its youth. That such a complex should be hardly more than a decade old is scarcely conceivable. Symbolic of this early maturity are the well-kept lawns of Canadian Oil, which sweep down to the riverbank as if they were part of some long-standing landscaping scheme. Five years ago they were farmland, and the $23 million plant non-existent. This firm uses 25% of the Interprovincial Pipe Line crude and manufactures a whole line of products from airplane gasoline down to resid-

ual heavy fuel oils. It pipes butylene to Polymer, other hydrocarbons to the neighboring Dow plant, and ships its products by lake tankers, tank cars, trucks, and — you guessed it — pipeline. "White Rose", its gasoline, strikes a chord in the memory of old-time motorists who recall its long-standing use in the United States as early as the first World War. This refinery is a city in itself, complete with steam plant and a pumping station that would almost be adequate to serve the city of Sarnia. It also has its own police and fire departments.

Dow Chemical

Dow came to Sarnia to provide Styrene for the wartime needs of Polymer. Its 300 waterfront acres house one of Chemical Valley's most modern operations, still in process of expansion and active construction. Here the firm makes five types of polystyrene plastic under the trade name "Styron". The product is shipped in granular or block form to plastics manufacturers, in a riot of some seventy colors. The raw materials are Benzene from Canadian steel mills, and ethylene from Canadian Oil's hydrocarbons. Here salt from Dow's own wells, river water and electric power are some of the ingredients of Dow's chemical magic.

We touch only briefly upon Dow's Canadian operation as we hope to devote a latter article to Dow as a whole. It employs some 800 people in the Sarnia plant. As for its place in Canadian economy, about 600 products from luggage fabric to fertilizer are now Dow produced.

Cabot Carbon

We challenge you to turn out Saranwrap, Blue Sunoco or chemical latex in the home. Sarnia's industry is full of operations you could never hope to duplicate. But you can produce more of this firm's product than you are likely to want by simple failure to adjust the air flow of your oil furnace. In a short time you will be able to gather high-quality carbon blacks from window curtains, bookshelves and wall-to-wall carpet. Cabot Carbon can produce it for you with less agony, however.

Carbon black is not likely to come to our attention much (except during the above clean-ups), yet it is absolutely essential to many products in daily use. We ride to work on 16 pounds of it in our car's four tires, and there are many more pounds distributed throughout the car. Synthetic rubber is particularly dependent upon it for optimum wearing qualities: a tire that is good for 30,000 miles when reinforced with carbon black would wear out in 3,000 miles without it.

85% of this product goes into rubber manufacture. The same factors that make chemical rubber essential to Canada also account for the establishment of this plant, a wholly-owned subsidiary of the parent firm in Boston. Future war would no longer catch the nation with a critical short supply of this material. The Sarnia location was chosen because of the availability of liquid hydrocarbons from the petrochemical plants. Natural gas, the former raw material for producing carbon blacks, is being largely displaced by the more convenient residual oils. A simple product, this, for essentially all it requires to manufacture it is a flame burning in a deficiency of oxygen, and a surface for the soot to be deposited upon.

Scientific soot is a dirty product, but you would not know it to see this fine new plant. A complete smoke elimi-

nation system keeps the atmosphere clean, and the most conscientious of handling and shipping procedures guarantee that neither air, water nor landscape become sullied.

Fibreglas

Fibreglas, Ltd., has the largest of its three plants in Sarnia. It receives steam and butane from Polymer and fuel from local refineries. From Muskegon and Rockwood, Michigan, it ships the sand for its product, and other essential mineral raw materials such as salt cake and limestone are obtained in Canada. The plant manufactures blown fiber for building insulation, for which glass has very superior properties, and also mats for battery separators, pipe wrappings and appliance insulation. Included in the physical equipment are enormous silos for the raw materials, 2-story furnaces, and warehouses so long that the supervisors are provided with bicycles for the swift completion of their appointed rounds.

What of the Community?

Such is the industrial picture, for the most part. Naturally many firms have been omitted, to concentrate upon the largest or the most unusual. What has the influx of all this industry meant to a small city? The question is thrown into relief by a row of statistics:

Between 1947 and 1955 Sarnia doubled its population, and now numbers over 47,000. The figure does not include the metropolitan area.

During the same period its school population nearly tripled.

During the same period it increased in area five-fold.

Percentagewise it is growing faster than any other city in Canada.

It usually has the highest industrial weekly wage in the country, some $15 above the national average.

It is among the top half dozen Canadian cities in home building, and 70% of all the city's houses are owner occupied.

The growth figures mean more if we compare them with those for Canada as a whole and those for the United States. Canada is increasing in population at an annual rate of 17% in the last few years. Most of the increase, proportionately, affects the Province of Ontario. The rate of growth of our own country is less than 2% annually, or roughly 1/10 that of Canada.

It is obvious that the problems of Sarnia as a community must be large, and it is no reflection upon its people to say so. The courage and stamina of the Sarnians themselves need no praise from anyone: these qualities were tested in the dreadful tornado of 1953, which laid waste much of the business section. Today not a sign of the damage remains; in fact it was only a matter of months before the community had substantially recovered.

Schools. The fact that the Chippewa children from the Reserve have been integrated into the public school system provides Sarnia with another national "first". Several other cities have followed suit. The Indians themselves have hailed this move as one of their race's greatest advances in recent years. But other educational data are more familiar: the universal problem of rapidly growing communities in desperate need of more school facilities.

As we all know in this school-crisis conscious age, a good measurement of the educational situation is the teaching load. Sarnia's elementary teachers have an average of 36 pupils apiece,

while the number in the high schools is 40. The active construction program cannot keep up, though a new secondary school was opened last year, and a third one will be ready in the fall.

Number One Headache. The city's greatest problem is sewage disposal, and it is a problem that no one could censure the community for failure to solve. There happens to be, in Ontario, no legal implementation for floating general revenue-producing bonds to finance a disposal plant. The consequence is that none of the Canadian border cities have such plants. Perforce, they dump raw sewage into the river, an act viewed with considerable disfavor by their American neighbors. It will require a special enabling act of the Provincial Legislature to correct this situation. Such an act seems imminent, for it has the active backing of the Provincial Chamber of Commerce.

A drive through industrial Sarnia, through the pleasant old streets that reveal a more tranquil past, through the crowded prosperity of the shopping district, and through the newly developed housing area to the northeast, gives the civic-minded a concentrated picture of the problems and challenges that face many communities in the dawn of the atomic age. Among the challenges that lie ahead are the traffic problem new superhighways will bring, the hard-to-calculate effect of the Seaway, and the new orientations that will follow the building of the Transcanada Pipeline for natural gas, that may mean considerable industrial development in the northern part of western Ontario. As the most stimulating city in the most stimulating country of our age, Sarnia deserves the admiration of its close Michigan neighbors.

Our thanks are extended to Imperial Oil, Limited; the Polymer Corporation; Cabot Carbon of Canada, Limited; The Sun Oil Company; Canadian Oil Companies; Dow Chemical Company; Fibreglas, Limited; and especially to A. W. S. Bennett, Manager of the Sarnia Chamber of Commerce, for their help in the preparation of this article.

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WAITING FOR THE MAHATMA

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TAX SAVINGS IN YOUR BUSINESS

*By CECIL R. UPHAM**

These last-minute aids to the harried taxpayer will be of special interest to those who conduct a share of their business from their own home.

Interest on Loans and Investments Income

If the amount of the interest on the loan is deducted from the face of the loan at the time of making the loan, it does not become includible income until the loan is repaid. If the loan is repaid in installments, a portion of each payment is considered a return of the loan and a portion interest. The portion that is interest must be included in gross income.

Examples — In 1955 a loan of $1,000 is made to Smith and Company for one year @ 6% per annum. Interest of $60 is immediately deducted and Smith and Company is given $940. At the end of the year, Smith and Company pay $1,000. The difference between the amount of the cash disbursement and the cash receipt ($60) is income in 1956.

Investments made in interest-bearing past due notes may represent a return of capital rather than includible interest. Suppose you paid $1,000 for an interest-bearing note upon which there is past due interest of $100. Payments on this note up to $100 are considered a return of capital, and reduces your cost to $900. Interest payments received after the $100 has been paid are includible in gross income.

Interest on certain types of investments are includible in gross income regardless of the fact that the amount of the interest has not been reduced to possession. Interest on savings accounts and building and loan accounts become includible income when the amount has been credited to your account on the books of the paying organization. Likewise, the interest on coupon bonds is includible in gross income in the year the interest coupon is due for payment. These citations follow the doctrine of "constructive receipt": i.e., the income is available and it is up to the investor to reduce it to possession or not as he chooses.

Debtors sometimes default upon their obligations at maturity and renew their obligation by giving a new note including interest on the old note. The interest included in the new note is not includible income. It is possible at times to control relations with debtors and thus reduce the amount of income received and taxes to be paid. If a debtor owes both principal and interest and you agree to receive interest only, the amount of the interest so received becomes includible income, but if you agree to receive principal and defer interest, the amount received is not includible income. It becomes a return of capital. It is necessary that you clearly earmark such payments as return of capital in your records in order to avoid subsequent controversy with the tax collector.

When property is sold and the buyer pays cash and executes an interest

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bearing promissory note for the balance of the purchase price, the seller will have interest to report as includible income as the note is paid off. If the seller can get the buyer to step up the purchase price, the interest factor in the deal can be avoided altogether. The seller will then have additional capital gain to report in place of interest (ordinary income).

Corporation bonds held to maturity upon which the final interest payment and principal is paid prior to the redemption date of the bond has been held to be in part interest income and in part capital gain.

Example—You hold as an investment a $6,000, 4% bond with interest payable January 1, and July 1. The bond indenture provides that the bonds can be retired on any interest date. On November 1, 1956 the company notifies all bondholders that it will redeem its outstanding bonds on January 1, 1957. If the Company begins redemption one month prior to the due date and you present your $6,000 investment for redemption on December 1, you will receive $6,120. Of the amount $6,000 represents a return of capital, $100 interest from July 1 to December 1 and $20 extra interest from December 1 to January 1. The U. S. Treasury Department has ruled that the $20 is a capital gain, not ordinary interest.

When excess funds are employed in the acquisition of interest bearing bonds on the open market, care should be exercised to distinguishing in the records of the purchaser the two essential elements of the purchase price, namely, the market price of the bond and the accrued interest. Likewise, when the bonds are sold the two elements in the selling price are the market price of the bond and the accrued interest.

Example—On May 1, 1956 an investment of $6,000 is made in the 4% bonds of "X" Company, interest payable January 1 and July 1. The market price of the bonds on February 1, 1955 is 103 plus accrued interest. The total cash required to make this investment is $6,260 of which $6,180 is the market price of the bonds and $80 is accrued interest. On July 1 interest of $120 is received of which only $40 (interest for two months, May and June) is includible income. On December 15, 1956 the investment is sold at 105 plus accrued interest. Total cash received (excluding any selling costs) is $6,410, of which $6,300 is the selling price of the bond and $110 accrued interest. The $110 interest received is includible income (ordinary income) and the difference between purchase price ($6,180) and selling price ($6,300, is also includible income (capital gain).

Deductions

Depreciation—The Internal Revenue Code of 1954 provided two accelerated methods of computing depreciation applicable to new property that did not exist in any prior code. If taxpayer is considering expansion of facilities, he should consider the tax advantage of acquiring new facilities which permits higher amounts of depreciation deduction in the early life of the property than is available by the acquisition of used property where straight line depreciation must be employed.

Assume a machine which costs $10,000 and has a useful life of 10 years. Under the declining balance method you are entitled to double the straight-line rate of depreciation, applied to the

unrecovered cost each year. The depreciation deduction starts off high and goes down each year; at the end of the useful life there will still be part of the cost unrecovered (see table below). There are two ways in which the remainder of the cost can be recovered; (1) The machine can be abandoned as worthless or sold for a nominal amount and the remaining unrecovered cost deducted as a loss against ordinary income, of (2) the remaining unrecovered cost can be deducted by switching to straight-line depreciation.

Under the sum-of-the-digits method the depreciation deduction is almost as high in the early years as the declining balance method, and although deductions diminish each year, it allows a 100% write-off over useful life (see table below). This method is applied by using a decreasing fraction of original cost each year for the depreciation deduction. The denominator of the fraction is constant; the numerators go down one each year. The denominator is computed by adding together the numbers of all the years of the useful life of the asset.

From the above table it should be noted that at the half-way mark in the useful life of the machine, the depreciation deduction is about—

½ under the straight-line method

⅔ under the declining-balance method, and

¾ under the sum-of-the-digits method.

The tax saving between the use of the straight-line method and the declining balance method during the first four years in the life of the machine, assuming a tax rate of 30% or 52%, is indicated below:

Year	*Difference in Deduction*	*Amount (30% rate)*	*Amount (52% rate)*
1	$1,000.	$300.00	$520.00
2	600.	180.00	312.00
3	280.	84.00	145.60
4	24.	7.20	12.48
	Total	$571.20	$990.08

This is equivalent to 5.7% and 9.9% respectively, of the cost of the machine.

Comparison of tax savings between the straight-line method and the sum-of-the-digits method shows even greater savings over a five year period as shown below:

Year	*Difference in Deduction*	*Amount (30% rate)*	*Amount (52% rate)*
1	$818.	$245.40	$425.36
2	636.	190.80	330.72
3	455.	136.50	236.60
4	273.	81.90	141.96
5	91.	27.30	47.32
		$681.90	$1,181.96

	Straight Line		*Declining Balance*		*Sum-of-the-Digits*	
Year	*Annual Deduction*	*Cumulative Cost Recovered*	*Annual Deduction (Nearest Dollar)*	*Cumulative Cost Recovered*	*Annual Deduction (Nearest Dollar)*	*Cumulative Cost Recovered*
1	$1,000.	$1,000.	$2,000.	$2,000.	$1,818.	$1,818.
2	1,000.	2,000.	1,600.	3,600.	1,636.	3,454.
3	1,000.	3,000.	1,280.	4,880.	1,455.	4,409.
4	1,000.	4,000.	1,024.	5,904.	1,273.	6,182.
5	1,000.	5,000.	819.	6,723.	1,091.	7,273.
6	1,000.	6,000.	655.	7,378.	909.	8,182.
7	1,000.	7,000.	524.	7,902.	727.	8,909.
8	1,000.	8,000.	420.	8,322.	545.	9,454.
9	1,000.	9,000.	336.	8,658.	364.	9,818.
10	1,000.	10,000.	268.	8,926.	182.	10,000.

This is equivalent to 6.8% and 11.8% respectively of the cost of the machine.

Although the end result by the use of the accelerated methods is theoretically the same as under the straight-

line method, the saving in tax money in the early life of the asset provides funds that can be used to: (1) increase available working capital; (2) provide for additional expansion; (3) reduce indebtedness that was incurred to acquire new facilities; (4) step-up deferred maintenance, or (5) replace obsolete equipment with modern up-to-date equipment.

Termination Expenses—If you are a landlord with property leased to a tenant for a fixed number of years, you may want to change tenants before the lease with the present tenant has expired. Usually you will offer the present tenant a bonus to cancel his lease so that you can rent to another lessee under more favorable terms. The payment to the old tenant is deductible over the remaining life of the old lease.

Sometimes a prospective new tenant will pay the landlord a bonus to get the old lease cancelled. The landlord then uses this money to buy up the existing lease from the old tenant. This procedure is not the most appropriate one for the landlord. The bonus money received becomes income when received but the money paid out to buy up the old lease must be spread over the remaining life of the old lease. The landlord acts as the middleman in the deal and ends up paying taxes on funds he cannot retain.

The remedy for this situation would be to have the prospective new tenant buy the lease from the old tenant and leave the landlord out of the picture entirely. The two tenants will be in the same position; the new tenant secures the property and can spread his payment over the remaining life of the lease and the old tenant will have a capital gain to report whether he gets the cancellation money from the new tenant or the landlord. The landlord saves the income taxes he would have to pay by reporting the bonus funds as income and getting only a partial deduction (in the year of cancellation) for the funds paid out.

Property Donations—Donations to recognized charitable, literary, educational and scientific organizations are sometimes made in property items other than cash. The deduction in this case is the fair market value of the property at the time of donation. The manufacturer who has produced the goods donated does not have a double deduction (once for converting raw materials into finished product and again for the fair market value of the finished product donated), under present U. S. Treasury regulations. The Treasury department has ruled that (1) if the item donated was in the opening inventory, the inventory shall be reduced by the value of the item in this inventory, (2) additional costs incurred in producing the property donated in the year of donation are not deductible and (3) if deductions were taken in a prior year in connection with the item donated the fair market value at the time of donation shall be reduced by these deductions.

If securities are donated instead of inventory or manufactured products, the procedure indicated below should be followed to get the maximum tax advantage:

(1) If present market price is above cost, the securities should be donated. This procedure avoids the capital gain tax on the sale and the deduction permissible is the fair market value at the time of donation.

(2) If the present market price is below cost, the securities should be sold and the cash proceeds donated. This proce-

dure establishes a capital loss deduction. A loss cannot be established by donating securities that cost more than the fair market value at time of donation. The loss must be realized by converting the investment into cash.

Guaranteed Loans—Instead of making a direct loan to a business concern it would be better to guarantee the repayment of a loan made at a bank in the event the borrower defaults. A direct loan not repaid would be considered a non-business bad debt unless the lender is in the business of loaning money. A non-business bad debt is treated as a short-term capital loss. The amount of the default is first charged against any capital gains of the lender and the balance of the loss, up to $1,000, against ordinary income. Any balance of the bad debt can be carried forward five consecutive years, and it is possible that a part of it might never be deducted. If the money is borrowed from a bank with your signature as a guarantor, the loss can be deducted in full in the year the loan becomes worthless. In a situation of this kind, the bad debt is considered a business bad debt and the loss deductible in full.

Work at Home—If part of your work is done at home, a deduction is allowable for a proportion of the following expenses which the household space used for office purposes bears to the total—rent, depreciation on house owned, heat, insurance, painting and general repair work done on the house. It is also permissible to charge off depreciation on furniture used in the office space, repairs and decorating done in the office space, business telephone calls, cost of literature used in your work, etc. These items can be pinpointed by setting aside one room in the house for business or professional activity. It should be furnished to suit those purposes by installing files and other facilities to do business planning, reading, writing and telephoning from your home.

How Well Read Are Soviet Economists?

*By HENDRIK ZWARENSTEYN**

Time and again we have heard the expression that there is an interdependence between the economic, the legal and the political spheres. And to these factors one might well add the religious sphere.

This statement becomes of practical importance in times where one reads every so often some remark about "coexistence". If there is to be a political co-existence, then such a political assimilation cannot leave the economic sphere of our society untouched . . . at least not entirely.

One might even go farther and state that there can only be a "going together" (be that on a temporary basis, on a relatively steady basis, or for keeps) when there is some mutual understanding about the ways of thinking of the partners in the alliance.

It then becomes of importance to see whether such an understanding exists in Soviet-Russia relative to our economic way of thinking. At the same time, it seems to impose on us the duty to take notice of (and try to understand) Russian economic thought. The latter might become known by reading Joseph Stalin's *Economic Problems of Socialism in the USSR*, a set of remarks on economic questions including answers to critics of these observations. The English version was published in 1952. For one thing, one might find in the publication the present Marxist definition of "capitalistic and socialistic basic concepts".

While it is conceded that we could make ourselves acquainted with what is considered the accepted Russian economic philosophy, it might be of just as much interest to know at the outset what Russian economists know about us (*in rebus economicis*, that is). This would not become entirely manifest by contenting ourselves with reading Russian publications. One of the methods that one might follow to acquire this information is the technique so often applied in the field of marketing research, the interview. Indeed, one could hardly conceive of a better idea to get some notion of the general level of how well read people are than by interviewing these people directly. This technique has been applied by Ronald L. Meek, lecturer at the University of Glasgow. In the University of Glasgow publication, *Soviet Studies* (January 1955), we find Meek's report "Some Conversations with Soviet Economists" (page 238-246). These talks with Soviet economists occurred in May 1954, while visiting the USSR as a member of a Scottish cultural delegation. The meetings took place in Moscow (with two professors from the political economy section of the Academy of Sciences and another with the dean of the faculty of political economy at Moscow University) and in Tbilisi (with a number of members of the University teaching staff).

Meek divides the questions which he posed into four groups: (1) Questions arising from Stalin's *Economic Problems of Socialism in the U.S.S.R.* (2) Questions on the teaching of political economy at Soviet Universities. (3) Questions on the attitude of Soviet economists toward Western economic thought. (4) Questions on academic freedom in the U.S.S.R.

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What concerns us most in the scope of this present writing is to get a conception of the awareness by Soviet economists of the recent developments in Western economic thought. Meek informs us in his interesting article that Keynes's *General Theory* has been translated, and gone through several editions, the last in the middle forties. In fact, it was revealed that part of the advanced course in political economy is devoted to Keynes, and many dissertations on Keynesian economics have been written by Soviet students. Marshall, Fisher and J. B. Clark have also been translated, and other Western works. As, for example, the Webbs and Hobson have recently been reprinted. And though Meek conveys to the reader that none of the economists with whom he spoke were specialists in the history of economic thought, they were quite familiar with the main works of the British classical economists. Adam Smith's *Wealth of Nations* has been translated into Georgian, and the Russian scholars proudly point this out. They had no knowledge of the new Sraffa-Dobb edition of the works and correspondence of Ricardo, but had a vivid interest in it. The works of Western Marxist economists such as Dobb and Sweezy, although they had not been translated, were on the shelves of the libraries and were well known to specialists. "We are now studying more of the works of Western economists than ever before", said one of the interviewed professors, "and at the moment we are particularly interested in the work of American economists". Of course, even though the writings of the Western economists may not be accepted, it is a comforting thought that the content at least does not remain unknown to the Soviet economists. The interviewed professor had this to say on the subject: "Formerly, most of the Western economists were simply dismissed as "lackeys of the bourgeoisie", and so on. But now they are being studied in order that they might find out for themselves why they should be dismissed". The works of modern British economists, such as Joan Robinson, were also available, and according to this spokesman students were very interested in her. Also, British periodicals, such as the *Economic Journal,* were on hand in the library.

One may well ask what then causes these well informed Soviet students to launch their caustic remarks against the Western economists and treat them as "one reactionary mass". And indeed, Meek put this question before his colleagues. The answer he got has a revealing aspect. After first having pointed out that Western economists generally write from the bourgeois point of view (and Keynes seems to be definitely regarded as a bourgeois economist, "whatever his subjective intentions may have been") and subsequently, explaining that it is of paramount importance to show the people of the U.S.S.R. that the Labour Party is not really socialist (why would this be so important?, one is tempted to ask), there follows an interesting remark: " . . . the problem of the terminology we tend to use . . . might frighten some people away, but you must understand that it is traditional in our country. Sometimes we appear not to be sufficiently polite. That is the way we do things at home, and we tend to think that it may also help those abroad. Over-statement is part of our tradition, and no doubt the things we say sometimes sound rather

too loud to you in your country, where understatement is more usual . . ."

Of course, the above review only gives a fragmentary picture of Meek's interesting report on his conversations with Soviet economists. But at least this part seemed of sufficient importance to share the information contained therein with the readers of *Business Topics.*

DADDY, WHERE'S MY MONTHLY STATEMENT?

The scene opens to reveal Robert L. Lloyd, Assistant to the President of the American Maize Products Company, and after hours the parent of two small boys. They are fulfilling their normal function of clamoring for their May 1 allowance on the 20th of March. Mr. Lloyd, making the highly original remark, "It's time you boys learned the value of money," proceeded to do something about it. To impress upon them the joys of saving, he offered to set up a home banking system, and developed one involving impressive impedimenta of monthly statements, checks and deposit slips. His plan caught the imagination of the boys just as he intended; they became Junior Bankers at Home with such determination that one of them, in six years, has accumulater over $800 through the home bank, and deposited it in the real bank, charging his father interest in the meantime.

The inventor wondered whether his scheme might not be marketable. In 1954 he took it to the Chase Manhattan Bank, which was so impressed that it brought in experts to develop and market it. It has been in operation since last summer, functioning through thirty banks, and involving some seven thousand youngsters. A realistic checking account at home, it is sponsored by one bank in each community, which provides the parent, for a nominal charge, with an impressive plastic case complete with the child's name in gold leaf, and containing deposit slips, checks, statements and a genuine imitation gold Junior Banker pin to show to the other guys.

With practically no effort on the part of the parent, a child can thus gain practical experience of banking obtainable in no other way. Daddy can pay himself for his trouble by slapping on a 1¢ service charge, though our experience has been that the allowance then has to be raised correspondingly to avoid bloodshed. When the savings grow beyond an agreed point, a regular bank account can be opened, and the day is in sight when you can get Junior to balance your own stubs and bank statement, probably for a small fee.

Business Topics congratulates those who originated, developed and sponsored such an imaginative and practical idea. This service is still quite new. If your local bank is interested, further information can be obtained from Koster, Dana and Barrell, Inc., 30 Broad St., New York 4, N.Y.

Current Michigan Business Conditions

In general, business continued at a good pace into the new year. Certain segments of the economy—industrial production, non-agricultural employment, and retail sales—have continued at record seasonal rates. The picture, except for the temporary downward revision of automobile production schedules and the continued decrease in housing starts, has been one of near record proportions. Curtailment in the automobile field not only caused concern nationally, but especially in Michigan.

Nation's Business—The general level nationally has been high. The Federal Reserve Board's seasonally adjusted index of industrial production in January remained at the record 144 percent of the 1947-49 average reached in December. The production of durable goods, other than autos, was generally at the same level as December; and the production of non-durable goods and minerals continued at peak rates. Major household durable goods in January were about 5 percent above a year ago. Steel production was running at 99 percent of rated capacity—and with increased capacity, this has been at record levels.

Housing starts in January were at a seasonally adjusted annual rate of about 1.2 million. Total new construction expenditures declined for the fifth consecutive month, although January 1956 was somewhat ahead of the figure for January 1955.

Retail trade, although seasonally down from December levels, was generally running about 5 to 6 percent above 1955. Department store sales, nationally, through February were running 2 percent above the advanced rate of a year ago, indicating that consumers are still spending. Consumer credit outstanding, with a total estimated at $35,554 million at the end of January, dropped seasonally during January, with the largest drops associated with charge accounts. Installment credit dropped moderately, with the drop largely in consumer goods paper and not automobile paper.

Employment, nationally, was at near record levels, although dropping 1.3 million to 62.9 million in January. The employment drop was less than the usual post-Christmas decline so that unemployment in January rose seasonally to 2.9 million.

Retail prices have, in the aggregate, continued to remain fairly stable. The Consumer Price Index of the Bureau of Labor Statistics in January was at 114.6 of the 1947-49 averages, compared to 114.3 a year ago, although the present January figure represents the second consecutive monthly decline. Food continues to be the main item keeping the index from advancing. The Wholesale Price Index of the same agency has increased about 1.5 percent in the past year, reaching 111.8 in January. Here again it was farm products and processed foods which, by their combined price decline, tended to average out the increases that have taken place in commodities other than farm products or food.

The Index of Prices Received by Farmers gained slightly to mid-January, although prices paid by farmers also increased enough so that the resulting Parity Ratio remained at 80—down 7 percent from January a year ago.

Michigan Business—Activity in Michigan has been geared closely to the automotive situation. Continued high level of production and slow sales during January brought about the heaviest inventory among the nation's new car

retailers. *Automotive News* reported a total of 856,665 units on February 1, compared to the total of 808,477 units on January 1. The result led to some contraction in auto production schedules; but reported new car sales in the first 10 days of February showed a substantial upturn, and production schedules were again increased. *Automotive News* expects that the first quarter sales this year will be second only to last year's record high.

The results of reductions in auto production schedules were felt in the State's employment picture. In mid-December, the State's wage and salaried employment reached 2,396,000—the highest level in the State's history. Due to layoffs, this total dropped to 2,335,000 in mid-January. Manufacturing employment, at 1,206,000 in mid-December and 1,183,000 in mid-January, was below the 1,282,000 record set in May and June of 1953. Total unemployment increased from 83,000 in mid-December to 111,000 in mid-January, with a substantial portion of the increase centered in the Detroit Metropolitan Area due to layoffs following automobile production cutbacks.

In spite of some fluctuation in employment, the level of retail trade remains high and above 1955. Both department store sales and retail sales collections are above 1955 levels. State-wide January department store sales were 5 percent above a year ago.

Banking activity, a good barometer of business conditions, has been above 1955's level to date. Bank debits in every center of the State were considerably above corresponding figures for a year ago, although such bank activity in January had subsided seasonally from December levels in all of the metropolitan areas of the Lower Peninsula.

Bank deposits in the Lower Peninsula were generally seasonally off during January, but demand and time deposits throughout this area were substantially above early 1955. Federal Reserve member banks outside Detroit had total demand deposits of $1,148 million, up 4.9 percent over January 1955, and time deposits of $1,266 million, up 7.0 percent over the same month. The Detroit Federal Reserve member banks had demand deposits of $2,549 million, up 2.5 percent over January 1955, and time deposits of $1,206 million, up 3.3 percent over the same month.

Bank Debits

City	Bank Debits (thousands of $'s)			Percent Change from Previous Year		
	Nov '55	Dec '55	Jan '56	Nov '55	Dec '55	Jan '56
Adrian	23,538	27,316	26,186	+24.5	+23.5	+23.9
Battle Creek	68,627	78,230	72,169	+ 8.9	+ 9.0	+ 2.3
Bay City	49,687	56,877	52,502	+12.2	+16.7	+15.3
Detroit	6,565,703	6,844,610	6,807,359	+41.7	+18.8	+24.5
Flint	176,610	196,601	184,278	+26.3	+ 9.6	+12.4
Grand Rapids	313,098	331,208	331,733	+11.0	+ 5.4	+14.1
Jackson	92,179	105,890	103,485	+13.3	+14.2	+16.9
Kalamazoo	131,804	160,214	140,457	+19.3	+26.1	+21.7
Lansing	147,763	173,948	152,382	+20.0	+13.5	+14.8
Muskegon	76,382	94,581	88,210	+10.6	+18.4	+14.7
Port Huron	39,568	47,407	42,580	+15.3	+24.6	+11.7
Saginaw	120,595	138,255	118,877	+18.8	+13.3	+15.8
Escanaba	10,124	11,251	12,120	− 0.3	+ 3.5	+10.8
Marquette	11,600	11,673	13,044	+ 5.7	+ 1.0	+19.1
Sault Ste. Marie	10,513	11,585	11,435	−11.3	− 9.3	+ 8.9

Source: Federal Reserve Banks of Chicago and Minneapolis

Department Store Sales

	November 1955 Percent Change From		December 1955 Percent Change From		January 1956 Percent Change From	
	Oct '55	Nov '54	Nov '55	Dec '54	Dec '55	Jan '55
Battle Creek	+ 4	+33	+50	+41	−59	+25
*Detroit	+20	+18	+36	+11	−59	+ 5
*Flint	+11	+15	+44	+11	−61	− 2
*Grand Rapids	+20	+ 9	+47	+ 6	−60	− 1
*Jackson	+13	+22	+54	+11	−62	+ 6
*Kalamazoo	+28	+ 9	+54	+ 6	−64	+14
*Lansing	+15	+17	+52	+14	−61	+ 7
Muskegon	0	+10	+72	+11	−63	+ 5
Port Huron	+26	+16	+53	+18	−68	+14
*Saginaw	+11	+18	+29	+12	−56	+ 5

*Metropolitan Areas

Source: Federal Reserve Bank of Chicago

Motor Vehicle Factory Sales from Plants in United States

	Factory Sales			Percent Change from Previous Year		
	Nov '55	Dec '55	Jan '56	Nov '55	Dec '55	Jan '56
Passenger Cars	745,993	695,096	591,032	+49.7	+3.8	− 7.0
Motor Trucks and Busses	114,852	103,966	99,221	+28.3	+8.0	+10.6

Source: Automobile Manufacturers Association

Electric Sales in Kilowatt Hours

	Thousands of KWH Sales			Percent Change from Previous Year		
	Oct '55	Nov '55	Dec '55	Oct '55	Nov '55	Dec '55
Residential	479,641	513,849	562,225	+ 6.9	+ 9.1	+10.9
Commercial	307,580	317,075	311,328	+13.2	+17.3	+ 8.5
Industrial	905,204	954,330	938,260	+25.2	+20.3	+14.3

Source: Edison Electric Institute

Non-Farm Employment

	State of Michigan	Detroit Met. Area	Flint	Grand Rapids	Lansing	Saginaw	Upper Peninsula
Nov. 15, 1955	2,616,000	1,479,000	144,900	118,600	82,000	59,400	81,800
Dec. 15, 1955	2,620,000	1,477,000	147,500	120,200	83,000	60,000	79,500
Jan. 15, 1956	2,559,000	1,440,000	143,200	117,600	81,100	58,800	78,500
Percent Change from Year Ago:							
Nov. 15, 1955	+6.3	+6.9	+8.9	+1.5	+7.9	+4.9	+1.0
Dec. 15, 1955	+5.1	+4.8	+9.6	+2.1	+7.0	+5.6	−0.1
Jan. 15, 1956	+3.4	+2.7	+5.5	+0.7	+5.6	+5.2	+1.4

Total Unemployment

Nov. 15, 1955	67,000	35,000	3,200	2,100	1,500	900	5,600
Dec. 15, 1955	83,000	45,000	3,000	2,300	1,500	1,100	7,100
Jan. 15, 1956	111,000	60,000	4,500	3,100	2,100	1,600	7,600
Percent Change from Year Ago:							
Nov. 15, 1955	−59.1	−65.0	+ 6.7	−57.1	−57.1	−50.0	−39.1
Dec. 15, 1955	−44.3	−47.1	−14.3	−51.1	−51.6	−42.1	−31.7
Jan. 15, 1956	−27.5	−30.2	+ 4.7	−36.7	−30.0	−27.3	−35.6

Source: Michigan Employment Security Commission

MARVIN HOFFMAN

RETAIL SALES GROW AND GROW

Do you have the impression that the number of gasoline stations is multiplying? It is, but much more slowly than you may suppose—only 4 percent more in Michigan in 1954 than we had in 1948. And in that period their dollar sales grew by 64 percent!

Those are a few statistics from the 1954 retailing census, whose preliminary report on Michigan has just been released. You may have your copy for only ten cents, from the U. S. Department of Commerce Field Office, 438 Federal Building, Detroit 26 (or any other of its 32 field offices across the country).

A few more facts may be of interest. The number of retail outlets in Michigan declined in that period by one percent, while sales rose by 38 percent, contrasted with a 32 percent national increase. The gasoline stations had the highest percentage increase, but close behind were automobile dealers with 53 percent sales growth and food stores with 46 percent. As big food stores opened and replaced small ones, the total number declined nearly 9 percent.

Some areas had outstanding retailing growth. Flint's prosperity was reflected by 70 percent sales growth in its county. On Detroit's periphery Oakland and Macomb counties enjoyed 90 and 94 percent retail sales growth respectively. Their number of stores grew too, by 12 and 21 percent.

Many other reports on the 1954 Census of Business, a vital aid to practically every businessman, will be issued. This one has the title, when you are ordering, Preliminary Report, 1954 Census of Business, Retail Trade, Michigan.

You Don't Know These Michigan Towns, Do You?

The unsuspecting reader is hereby warned that this month we are loaded for bear. We are out to get a particular man who claims he can always guess our Michigan Towns. If he can get these we will carry a copy of Business Topics in our mouth all the way from Fort St. Joseph to Fort St. Joseph, a distance of 170 miles, on foot.

1. In 1685 there were two Forts St. Joseph in what is now Michigan. Neither one of them was at St. Joseph. What are the present names of these sites?
2. What fort was situated where St. Joseph is today?
3. Where was the fort in Ohio with a name practically indistinguishable from the above?
4. What town, situated at the crossing of five Indian trails, four of them Pottawattami, later manufactured the Imperial, Briscoe, Earl, Cutting and Handley-Knight automobiles?
5. Where was Michigan, Michigan?

(For answers see page 36)

A DIM FRENCH VIEW OF MICHIGAN

There is no use blinding ourselves to disagreeable truths. We citizens of this Water Wonderland are likely to think well of our state, but some other people have looked us over carefully and haven't liked what they saw at all. (You remember the government surveyors who refused to visit the dreadful hinterland of Michigan, and wrote up their unfavorable report of it from the safety of Detroit.)

Your magazine, ever alert to give you the truth even if it kills you, comes up with this official and confidential document on Michigan's potentialities. Though slightly outdated, it is still of value. It was written by D'Aigremont, an inspector sent out from Quebec by the governor of New France (i.e., Canada) in 1708 to survey the holdings of his majesty Louis XIV:

. . . The soil consisting of a sandy surface, nine or ten inches deep, beneath which is a clay so stiff that water cannot penetrate it. The timber . . . is small, stunted oaks, and hardy walnuts, the land produces good Indian corn . . . but it is because the soil is new. He does not believe that the fruits of Europe can be brought to perfection there, because the roots of the trees stand in water. Considerable cider is made there, but it is as bitter as gall. It is true that the country is warm, being only 43° North latitude; but the difficulty arises from the fact that the ground is new and full of water. There are some small chestnuts which are pretty good to taste, but they are the only kind of fruit that is good. The grasshoppers eat all the garden plants, so that it is necessary to plant and sow the same thing even to the fourth time.

Even if the land were ever so productive, there would be no markets, and the trade of this post would never be useful to France—the result of which would be that the establishment would always prove a burden . . . and no use. . . . He considers the post at Detroit very injurious to the colony, and to the commerce of the kingdom.

WE COMMEND

The Ford Motor Company, for publishing *Freedom of the American Road*. It's a wonderful, colorful book on our highway situations, on the things that are done (and ought to be done) for our traffic-jammed roads. From Maine to California it brings the best in thinking and action on the three elements of the traffic problem: (1) the highway, (2) the traffic and (3) us, the drivers.

This expensive book perforce has been sent only to several thousand people in government, education and civic categories, but here's hoping that many more get to read each copy. Every city and hamlet needs an informed citizenry on highway problems and their solutions. For us Michiganders, of course, it hits at the solar plexus of our economy.

Answers to *You Don't Know These Michigan Towns, Do You?*

1. Port Huron (at the subsequent site of Fort Gratiot); and upstream from Niles, near Edwardsburg. 2. Fort Miami. 3. Fort Miamis, now Toledo. 4. Jackson. 5. Lansing.

M.S.U.'S New Library

Be sure to visit our beautiful new library next time you come to MSU. Located on the second floor you will find a Divisional Library of Business and Public Service shelving some 26,000 volumes and over 300 periodicals. Housed in a single huge daylight-flooded room, it covers the fields of political science, economics, social work, journalism, hotel administration and restaurant management. The Divisional Librarian, William Stoddard, informs us that future plans include the development of wider services to the businessmen of the state, in cooperation with the State Library.

This is the largest to date of the country's major libraries to use the subject divisional organization, which breaks up the whole collection into six major groups and makes the books as available as possible. The building is a librarian's dream. The fifth largest in floor area of any university library housed under one roof, it comprises such amenities as ceiling-wide diffused lighting, soundproofing, and individual desks for study. As the photograph shows, the $4 million structure has been landscaped into the site during the very process of construction, as is the University's practice.

We are impressed by the uninterrupted service during the Hegira from the new building to the old. Ever try to serve meals while moving?

BUSINESS RESEARCH PUBLICATIONS

The Bureau of Business Research was established in 1951 to assist the Michigan State University faculty in conducting economic and business research and to serve Michigan business with information and studies. The studies are usually published, and those currently available are listed below. Inquiries should be addressed to the Bureau's director. Where applicable, draw checks payable to Michigan State University.

RESEARCH REPORTS

10. *What Michigan Newspapers Tell About the Schools (Free)*
12. *Taxation of Mobile Homes ($1.00)*
13. *Wages, Hours, and Fringe Benefits in Member Stores of the Michigan Retail Hardware Association ($1.00)*
14. *Michigan County Market Data (Free)*

15. *Michigan Statistical Abstract ($3.00)*
A handy compilation of the most recent statistics on Michigan and its subdivisions. Ten major classifications of data, 179 pages, concerning the economic, social and physical aspects.